Approved For Release 2007/01/16 : CIA-RDP57-00384R001200010175-6

6 October 1950

MEMORANDUM:

SUBJECT: Exclusions from Gross Income - Cost-of-Living Allowances.

1. Section 116 (j) of the Internal Revenue Code provides for exclusions from gross income, in pertinent part, as follows:

> "In the case of other civilian officers or employees of the Government of the United States stationed outside of the United States, amounts received as cost of living allowances in accordance with regulations approved by the President."

2. Section 29.116-4, Supplement to Regulation 111, states that:

> "For taxable years beginning after December 31, 1942, certain cost-of-living allowances and post allowances of Government civilian personnel stationed outside continental United States are, by the provisions of section 116 (j), excluded from gross income. Cost-of-living allowances and post allowances, excluded from gross income pursuant to the provisions of section 116 (j), shall be considered as retaining their characteristics under the subsection notwithstanding any possible combination thereof with any other allowance, such as a quarters allowance, as, for example, in a 'living and quarters allowance,' whether or not such other allowance is excluded from gross income."

3. It is our understanding that there is some doubt regarding the practical application of this exclusion and that few if any of the allowances of this character have been accepted for exclusion. The questions presented are:

a. Are the cost-of-living and post allowances indicated above those allowances specified in Executive Order 10011?

b. Are the allowances indicated above proper items for exclusion from gross income?

c. If the allowances indicated above are proper items for exclusion from gross income, what supporting proof is required?

Approved For Release 2007/01/16 : CIA-RDP57-00384R001200010175-6